

**Demographic Assumptions (Sample Rates) (cont.)**

**Disability Retirement** (Rates per 1,000 during year of age  $x + .5$  to  $x + 1.5$ )

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
30	0.1	0.4	50	3.4	5.2
35	0.3	1.3	55	6.2	7.9
40	0.9	2.4	60	14.1	13.7
45	1.6	3.3			

**Rates of Salary Increase** (Rates during year of service  $n + .5$  to  $n + 1.5$ )

<u>Service</u>	<u>Management</u>	<u>Occupational</u>
0	14.50%	19.00%
5	7.10%	6.00%
10	6.00%	5.52%
15	5.72%	5.37%
20	5.60%	5.35%

**Retirees with Dependents** (Rates during year of age  $x + .5$  to  $x + 1.5$ )

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	77%	50%	70	78%	36%
55	79%	49%	75	76%	22%
60	80%	47%	80	71%	17%
65	80%	40%	85	62%	14%

**Retirees with Spouses on Medicare Part B** (Rates during year of age  $x + .5$  to  $x + 1.5$ )

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
55	0%	0%	75	76%	22%
60	0%	19%	80	71%	17%
65	16%	40%	85	62%	14%
70	78%	36%	90	52%	9%

**Economic Assumptions**

Discount Rate: 8.5%

Long-Term Rate of Return: 8.5%

1991 Per Retiree Net Claim Costs

**A. Medical Plan**

<u>Age Category</u>	<u>Male</u>	<u>Female</u>
Under 45	\$13,125	\$13,373
45 - 49	4,459	5,449
50 - 54	4,212	3,716
55 - 59	4,954	4,212
60 - 64	5,696	4,260
65 - 69	1,858	929
70 - 74	1,561	873
75 - 79	1,597	873
80 - 84	1,615	929
85 - 89	1,764	1,022
90 - 94	1,950	1,114
95 - 99	2,136	1,207
100 & Over	2,229	1,301

**B. Dental Plan**

All Ages, Both Sexes	\$383
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C.

AT&T  
 Represented Employees Post-retirement Health Benefits  
 Retiree Health Care Cost Trend Rates

		Medical Care		Dental Care	Medicare
	CPI-U	Retirees Under Age 65	Retirees Age 65 & Over	All Ages	Part B Premium
1991	5.0%	12.5%	7.9%	4.3%	4.5%
1992	4.1%	10.4%	5.5%	4.0%	6.4%
1993	4.8%	10.5%	7.0%	4.2%	15.1%
1994	5.0%	9.8%	8.8%	4.3%	12.3%
1995	5.0%	9.4%	8.6%	4.3%	12.2%
1996	5.0%	8.8%	8.0%	4.1%	5.0%
1997	5.0%	8.4%	7.9%	4.1%	5.0%
1998	5.0%	7.9%	7.4%	4.1%	5.0%
1999	5.0%	7.5%	7.2%	4.1%	5.0%
2000	5.0%	7.2%	7.0%	4.1%	5.0%
2001-2004	5.0%	7.0%	6.9%	4.1%	5.0%
2005-2010	5.0%	6.9%	6.8%	4.1%	5.0%
2011-2020	5.0%	6.7%	6.3%	4.4%	5.0%
2021-2030	5.0%	6.7%	6.2%	4.9%	5.0%
2031-2032	5.0%	6.7%	6.2%	5.4%	5.0%
2033-2040	5.0%	6.6%	6.1%	5.4%	5.0%
2041 & Later	5.0%	6.6%	6.1%	6.0%	5.0%



**APPENDIX I**  
**ASSUMPTIONS FOR DETERMINING**  
**1988 POST-RETIREMENT GROUP LIFE INSURANCE CONTRIBUTION**

**Demographic Assumptions (Sample Rates)**Mortality: (Rates per 1,000 during year of age  $x + .5$  to  $x + 1.5$ )

Among Active Employees			Among Retired Employees		
Age	Male	Female	Age	Male	Female
25	8	4	50	32	13
30	7	6	55	21	9
35	8	8	60	18	9
40	1.5	1.0	65	21	12
45	2.7	1.7	70	31	18
50	4.5	2.5	75	50	30
55	7.5	3.7	80	78	48

Separation: (Rates per 1,000 during year of service  $n + .5$  to  $n + 1.5$ )

AT&T Occupational - Male - Sample Rates				
Service	Entry Age	20	30	40
0		186	135	115
5		26	21	22
10		12	11	15
20		8	11	-

AT&T Occupational - Female - Sample Rates				
Service	Entry Age	20	30	40
0		194	136	96
5		64	37	29
10		30	22	23
20		18	20	-

AT&T Management - Male - Sample Rates				
Service	Entry Age	20	30	40
0		105	102	91
5		6	21	16
10		8	13	10
20		4	8	-

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AT&T Management - Female - Sample Rates				
Service	Entry Age	20	30	40
0		95	92	84
5		44	32	14
10		27	13	14
20		8	10	-

Service Retirement (Rates per 1,000 during year of age  $x + .5$  to  $x + 1.5$ )

AT&T Occupational - Male - Sample Rates						
Service	Entry Age	20	25	30	35	40
20		-	-	-	55	90
25		-	16	33	44	500
30		28	32	50	500	1,000

AT&T Occupational - Female - Sample Rates						
Service	Entry Age	20	25	30	35	40
20		-	-	-	183	250
25		-	90	130	107	500
30		78	80	111	500	1,000

AT&T Management - Male - Sample Rates						
Service	Entry Age	20	25	30	35	40
20		-	-	-	60	86
25		-	16	31	63	500
30		13	34	97	500	1,000

AT&T Management - Female - Sample Rates						
Service	Entry Age	20	25	30	35	40
20		-	-	-	180	354
25		-	61	104	134	500
30		45	69	139	500	1,000

**Demographic Assumptions (Sample Rates) (cont.)**

**Disability Retirement:** (Rates per 1,000 during year of age  $x + 5$  to  $x + 1.5$ )

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
30	0.3	1.1	50	3.2	6.8
35	0.3	1.4	55	8.7	9.8
40	0.5	2.4	60	23.3	13.7
45	1.1	4.3			

**Rates of Salary Increase** (Rates during year of service  $n + 5$  to  $n + 1.5$ )

<u>Service</u>	<u>AT&amp;T Management*</u>		<u>AT&amp;T Occupational</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
0	19.3%	14.5%	5.0%	5.0%
5	7.8%	8.0%	5.8%	5.4%
10	6.0%	6.1%	5.2%	5.1%
15	5.8%	5.7%	5.0%	5.0%
20	5.8%	5.7%	5.0%	5.0%

\*Sample rates for entry age 25

**Retirees with Dependents:** (Rates during year of age  $x + .5$  to  $x + 1.5$ )

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	75%	59%	70	74%	26%
55	75%	55%	75	69%	16%
60	76%	46%	80	61%	9%
65	78%	34%	85	50%	5%

**Economic Assumptions**

**Discount Rate:** 12% for 1988-90; 8% for 1991-95; 6% thereafter

**Long-Term Rate of Return:** 12% for 1988-90; 8% for 1991-95; 6% thereafter



J

**ESTIMATE OF SFAS 106 "DOUBLE COUNT" FOR AT&T ASSUMING OPEB  
COSTS ARE OF A NATURE TO BE REFLECTED IN THE GDP-PI**

AT&T does not believe that there is any double count to be measured because SFAS 106 costs are not of a nature to impact cost and price decisions within the economy, and therefore they would not be reflected in the GDP-PI. However, in light of the Designation Order's concerns about a potential double count (id., ¶ 28), this Appendix demonstrates that AT&T would recover only a small percentage of its SFAS 106-related costs through the GDP-PI, if the Commission were in fact to affirmatively conclude that such costs were of a nature to impact cost and price decisions within the economy and that they are therefore included in that index. The reason for the low percentage is that AT&T's SFAS 106-related costs are disproportionately large relative to those of the economy as a whole. As a result, only a small portion of AT&T's SFAS 106 costs would be recovered through increases in an economy-wide price measure such as the GDP-PI.

Indeed, as demonstrated below, there is roughly a nine-times disproportionality between AT&T's SFAS 106 costs, measured on a per employee/retiree basis, and those for the economy as a whole. As a result only about 11.52% of AT&T's SFAS 106 costs would be recovered through increases

in the GDP-PI. Following are the calculations underlying these conclusions.

**Calculation of AT&T's Per Employee/Retiree**

**SFAS 106 Costs:** The AT&T company-wide TBO as of January 1, 1993 was \$9,109.5 million (excluding Global Information Solutions ("GIS"), the former NCR).<sup>1</sup> As of year-end 1992, AT&T (again excluding GIS) had 233,062 active employees, and according to its 1992 Annual Report (p. 36), AT&T had 141,200 retirees.<sup>2</sup> On a per employee/retiree basis, those TBO costs are thus \$24,340 (\$9,109.5 million divided by 374,262 -- the sum of 233,062 and 141,200).

**Calculation of Economy-Wide Per Employee/Retiree**

**SFAS 106 Costs:** Latest available data on the size of the economy-wide equivalent of the TBO are for 1993. Those data are provided in the 1994 GAO report "Early Retirement Health -- Health Security Act Which Shifts Billions in Costs to the Federal Government" (GAO/HEHF94-203FS). The report indicates that as of 1993, accrued liabilities were \$412 billion (p. 12). The \$412 billion can be viewed as the economy-wide equivalent in 1993 of the \$9,109.5 million AT&T TBO.

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<sup>1</sup> See Appendix A, Response to Issue No. 13.

<sup>2</sup> The retiree figure of 141,200 includes GIS retirees. Use of the 141,200 figure provides a conservative estimate of AT&T's TBO per employee/retiree.

Total employment in the U.S. in 1993, as measured by the household survey, was 119,306,000 (Employment and Earnings, April 1995, Table A-1, p. 10), while the number of retirees (assumed here to be the number of persons aged 65 and over who are not in the labor force) was 27,646,000 (Employment and Earnings, January 1994, Table 3, p. 184). The combined employee/retiree total is thus 146,952,000 ( $119,306,000 + 27,646,000$ ). Dividing the TBO cost of \$412 billion by the employee/retiree total, above, gives a TBO per employee/retiree of \$2804 in 1993.

Calculation of GDP-PI Impact. The following calculations compare AT&T's TBO obligation per employee/retiree to that for the economy as a whole in 1993. The data presented above show AT&T's per employee/retiree TBO costs to be 8.68 times greater than those for the economy as a whole in 1993 ( $\$24,340/\$2,804$ ). The implication of this, in terms of the GDP-PI double count, is that 11.52% ( $100\%/8.68\%$ ) of AT&T's TBO would be incorporated in the GDP-PI and that 88.48% would not be incorporated in that measure ( $100\% - 11.52\%$ ).

AT&T's "double count" calculation (11.52%) implicitly incorporates all impacts on the GDP-PI, including any supposed wage suppression, as hypothesized in the Godwins study (p. 24), on which most of the LECs had relied. Moreover, AT&T's "double count" estimate is very much in line with those made by others. For example, Bell Atlantic

found a 1.24% double count (Godwins study without wage suppression), Pacific Bell and Rochester found a 6.25% double count (NERA study), and all other price cap LECs found a 15.2% double count (Godwins study with wage suppression recognized). The double count estimate in AT&T's SFAS 106 study (11.52%) is also in line with the 10.14% double count that AT&T calculated in connection with its SFAS 112 filing.<sup>3</sup>

AT&T's and all other double count estimates notwithstanding, the fact remains that SFAS 106 is simply a change from cash to accrual accounting. As discussed in AT&T's Pleading Section II, such changes do not affect the underlying economics that drive a business, mainly its cash flow and the value of its assets and liabilities. Because the GDP-PI reflects only economic changes that are included in pricing decisions, SFAS 106-related costs are not accounted for in that index, and thus exogenous treatment without any offset will not result in any double recovery.

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<sup>3</sup> See Letter, dated November 18, 1994, from M. F. DelCasino, AT&T Administrator Rates and Tariffs, to William F. Caton, Acting Secretary, FCC.